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Such a prospect is a reasonably cheerful one. It implies a fiscal system which will exert little repressive influence on enterprise, which will put no burden on the consumption of necessities or of comforts, which will render unnecessary a resort to the sales or the spendings tax, which will turn a deaf ear to those who in advocating a remission of the tax on savings are in reality working toward a remission of the tax on wealth, and which will finally respond to the demands of democratic justice without incurring the hazards of administrative inefficiency. With a stoppage of the mad race for armaments, with a more successful emphasis on budgetary economy, and with a fuller recognition of the fundamental principles involved, we may look forward with hopeful anticipation to a sound and sensible fiscal system.

EDWIN R. A. SELIGMAN.

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DISCUSSION.

JOHN E. ROVENSKY.—Professor Seligman's excellent paper is divided into three parts: the first is introductory in character; the second deals with our present debt situation and the expenditure side of our balance sheet; the third deals with our revenue problem.

I shall confine myself largely to the second part, but, before proceeding, I cannot pass Professor Seligman's conclusions on branch banking without voicing my disagreement. He states that "the reason for.....credit inflation when nearing the crest of a boom period is to be sought largely in a continuance of the competitive conditions among our thirty thousand American banks" and recommends branch banking which he believes would convert "the multiplicity of competitive institutions.....into a chain of coöperative banks working together." It seems to me that Professor Seligman overlooks the fact that inflation increases only while a majority of the captains of industry and finance are of the opinion that commodity prices are likely to advance, i. e., that really dangerous inflation does not exist. As soon as they begin to recognize the existence of dangerous inflation and to doubt the stability of commodity price levels the crisis becomes imminent. If this is true, then I fail to see how fewer banking institutions would remedy the matter. So long as the managers of the fewer banks proposed by Professor Seligman believed that commodity prices are on a safe basis and that dangerous inflation does not exist, they would continue to extend credit within the limits that they deemed safe just as banks do at present. I believe that the history of banking in countries having branch banking systems fully bears out this conclusion.

Furthermore, I don't believe that competition caused banks to grant excessive credit during the period of advancing prices. The comparatively small losses suffered by commercial banking institutions are evidence of that. Individual institutions are careful not to jeopardize their capital by unwise

credit extensions and they seldom let competition overcome their natural cautiousness.

That, however, is but a relatively unimportant part of the whole question of the desirability of branch banking. I shall not take the time to go into it at length and I believe that a vast majority of American bankers will agree with me that the remarkable development of this country during the past fifty years would not have taken place under a branch banking system that vests the control of credit in a comparatively small number of men located in centers far away from the points that require the greatest amount of attention. The close personal attention, the local interest and the sympathetic feeling of the interior banker have been powerful factors in the development of our country.

The fact that branch banking exists in other countries is not a valid argument in favor of its adoption here. Geographically as well as politically our banking system is harmonious with our surroundings and is best fitted for our needs. Branch banking in our country should be confined to operations in a single community. To such branches the objections I have here stated obviously do not apply.

Passing to the second part of Professor Seligman's paper—that dealing with our present debt situation and the expenditure side of our national balance sheet—I wish to compliment the author on the clear and logical treatment of his subject. I agree with many of his conclusions and shall not mention a number of points where I find myself in disagreement with him, because in some instances the points are not important and in others the degree of disagreement is not sufficiently great to be entitled to space within the limited time at my disposal.

I agree with Professor Seligman that it would be advisable to introduce more elasticity into the process of retiring our national debt. Future generations will unquestionably derive far more benefit from the objects attained by incurring our present debt and it seems to me that the present generation is weighed down with taxes to the point where it is having a serious influence on our business activities. However, if more elasticity is introduced into our program it will be our problem to see that this actually results in a reduction in taxation and not increased expenditure in other directions.

Professor Seligman states that "undoubtedly still a majority in this country" consider the debt of our Allies to this country a just debt. That may be true, but if so, I am glad to place myself beside Professor Seligman in the minority that does *not* believe so. To say that the Allied debt to us is a just debt is to ignore colossal facts of human history and take our stand on the basis of mere bookkeeping figures.

When France, bled white by her efforts prior to our entry into the war, sent forward a regiment of her men to fight for our common cause and we furnished a part of their equipment, we booked the price of the equipment as a loan. But when we sent forward a regiment of our own men—thus furnishing not only the relatively unimportant equipment but also the precious human element—we booked that as an expenditure. How absurd—if any relation of debtor and creditor was created between France and ourselves

in the two foregoing examples it is the reverse of the technical bookkeeping results.

Czecho-Slovak soldiers, drafted against their will into the Austrian army, rebelled and went over to the Allied side; when Russia failed the Allies they fought their way through thousands of miles of bolshevik chaos and finally at the earnest request of the Allies (including the U. S. A.) maintained an Allied front in frozen Siberia—half way round the globe from their homes, in a desolate country in which they had no interest save as our Allies. And when they needed food and clothing to perform the task to which we and our Allies assigned them we “loaned” the required amount to their government—a government that possessed at that time absolutely no revenues. Is that a debt in the usual sense of the word?

Professor Seligman states that there is “great need of clear thinking and of public enlightenment on this subject.” I am certain that the American people, if the facts are placed clearly before them, will after due consideration arrive at the same conclusion as Professor Seligman—that these debts are not the kind that give us the right to rigidly demand payment but that they are merely bookkeeping results that ought to be reviewed in the light of the vastly more important human facts.

Professor Seligman clearly states the reasons why we originally placed our assistance to the Allies in the form of loans rather than direct contributions and points out the greater economy and efficiency that was probably obtained thereby.

He proceeds to show that even if the Allied debt was a just debt it would be disastrous to ourselves to demand payment of either principal or interest at this time. His reasoning seems sound to me. Without going into details the net facts are that Europe hasn't the gold with which to pay us and it would be disastrous for us to accept it if she had—and it would be almost equally disastrous if she attempted to pay us in merchandise.

If a demand was made today for the payment of any considerable part of the principal or interest of the debt, the immediate effect would be a marked falling of foreign exchange rates. The Allies, not having sufficient gold for the purpose of paying us, would be compelled to purchase dollar exchange thus forcing up dollar exchange rates in proportion to the amount demanded. This would accentuate the undesirable effects of the present foreign exchange situation—American goods would be forced out of South American countries and other neutral fields by goods produced in countries with lower exchange rates even to a greater extent than at present, and, if we persisted in pressing our claims, foreign goods would finally force their way into our home markets over any tariff wall that we may erect. In connection with the latter, I may state that collecting an import tariff while demanding payment of our debt would be the ethical equivalent of the action of a creditor who insists upon the amount of his claim being brought to his house and then charges an admission fee at the door.

Professor Seligman states his conclusions regarding this whole matter in the form of a number of questions. Shall certain conditions be fixed for the remission of the Allied debt? Shall we ask our debtors to give us

some consideration of a political, economic, or cultural nature for such remission? Shall the whole matter be left in abeyance for the time being?

The important thing, however, at the present time is that we frankly recognize the fact that to "insist upon immediate or even speedy payment of the debt would constitute an economic blunder of the first magnitude." In all this I heartily concur.

The task before us, as I see it, is to impress upon the American people the really important facts with respect to the origin of the debt and the inevitable results of any attempt on our part to demand any considerable payment in the proximate future.

A. W. KRECH.—It is not an easy task to beat the economists at their own game, and I feel that it would be much too perilous for me to attempt to storm the professors' strong entrenchments on University Heights. But I should like to be allowed to give you the point of view of a mere banker who cannot help feeling that if the learned economists are having a bully good time diagnosing the ills and troubles of the country, it is because the bankers and business men are having a very tough time trying to readjust, as the well-worn phrase goes, their own affairs to prevailing conditions.

First, I would like to say a few words about the business cycle. There is no doubt that there are ups and downs in the affairs of men and nations, and that fat years have never been remarkable for their staying powers. It seems also to me that a reasonable explanation of the musty bromide, "The higher the crest, the deeper the trough," is to be found in psychopathy. If we were perfectly sane, perfectly balanced, perfectly poised, perfectly rational, the ups and downs of business would probably be less accentuated, but you know that it is quite normal for us to be abnormal, and it is to be feared that for many years to come a very unreliable nervous system will remain in control of our poor human flesh. But I am not speaking before a congress of psychopaths, and I must return to the economic fold. I only hope that a psychopathist who is also an economist (and since everybody nowadays is more or less dabbling in economics, such a psychopathist may well exist) will write on this interesting subject a book whose title, inspired by Krafft-Ebbing's famous work, should be "Psychopathia Industrialis."

But I should hesitate to claim that business cycles are scientifically established phenomena, which may eventually be brought under the control of all-knowing and all-understanding men. Periods of plenty and periods of depression are conditioned by innumerable causes, which can hardly be foreseen or even catalogued. One instance may help to make my point clear to you. Switzerland is at present blessed with the not enviable honor of having her franc quoted above par in New York, and as a result her hotels are empty, because the tourists have gone to the Black Forest or the Italian Lakes, or the Riviera where their pounds and their dollars have a much greater buying power. I wonder whether you can ascribe Switzerland's present position to the business cycle. No, the economic destinies of a nation or of a group of nations or even of the world are shaped by so

many ever-changing factors that it is hardly possible to explain by a so-called business cycle the appearances of periods of bad business or good business.

One thing is more or less sure, and that is that our economic destinies are to a very great extent moulded by ever-recurring factors: thus there are ever-recurring wars, ever-recurring plagues, ever-recurring droughts, ever-recurring periods of saturation, ever-recurring periods of speculation or what I shall call business exhilaration. In Egypt of old, the Nile drew the curves which the economic investigators of the Pharaohs recorded on their charts; in India the monsoon is the great economic arbiter; in Turkey it is the cholera; in a wine-growing region it is the phylloxera.

Now these ever-recurring factors may to a certain degree be controlled; one can dam a river, or irrigate the countryside, or despatch doctors and nurses to a threatened region, or call a peace conference to avert a war, or, since economists should be put to some useful purpose, create a bureau whose duty it would be to warn—let us say—prospective automobile manufacturers, that the point of saturation has been reached in the automobile industry. To that extent, business vagaries may more or less be corrected, but I am afraid that I am not ready as yet to accept the all-explaining business cycle theory as a possible remedy to our economic ills without a very liberal helping of salt.

Professor Seligman has pronounced an eloquent plea for the cancellation of the Allied debt. His noble idealism is traditional in the great university of which he is one of the most honored masters, but I cannot help feeling that he defends his point of view with a passion kindled much more by his heart than by his reason. First of all, I think that it is not right to brand the debt as an unjust debt. The debt is a most honorable debt both for the debtor and the creditor. It was an honor for us to rush to our embattled Allies our material help, and it is an honor for the Allies to owe a debt which wrought victory. After all we should not forget that our share in the war is not represented only by the ten billion dollars advanced by our Treasury. To say that our debt is unjust is almost tantamount to saying: The Allies gave their blood, America can well afford to forget her dollars. When we pegged the franc and the pound sterling, we were not precisely mindful of our dollars. Tremendous sums of money were spent in France and in England by the A. E. F. If we had not pegged the franc and the pound, we would probably have obtained much more for our dollars. The sums we advanced, it is true, enabled our Allies to feed and clothe their soldiers, but on the other side, did we not pay for everything our army bought overseas? I hope you will understand that I am not oblivious of the admiration and gratitude we owe to our Allies, but I feel that it is my duty to explain to you why I cannot regard our debt as unjust.

But now arises the question: Shall we or shall we not cancel the debt? I believe that the moment is ill chosen to bring the question in so uncompromising a manner before our people. Economically speaking we are at present a very much harassed people: the burden of the taxes, the difficulties and hardships brought upon us by deflation make it very hard for

the people at large to examine so important a question in the right spirit. Therefore, I propose that we should take a leaf out of Secretary Hughes' book, and declare a holiday of ten years during which the debt would be considered as non-existent. After the ten years have elapsed, the question of the cancellation should be taken up again. I believe that these ten years of an absolute suspension of the effects of the debt, would create an atmosphere of judicious aloofness. We should then be in a much better position and also in a much better mood to approach so vast a proposition. Besides, let it not be forgotten that the nations have not as yet found their bearings, they are still uncertain as to which roads, political or economic, they should follow, there is still much to be done and much to be undone. The actual burden of the debt should be removed during these difficult years, and we should say to our debtors: "You must have but one thought in mind; that is to put your own house in order, and you shall not during the next ten years be hampered in your efforts by the demands of your creditors." After all it will be granted that in 1931, things may look pretty different from what they are now. Our debtors are hardy people who have weathered more than one storm, and ten years should witness great changes for the better in their affairs. But the point is not so much to wait ten years in the hope that then our Allies may be in a position to pay easily their debt; my proposition is not a veiled moratorium. I conceived it in the hope that ten years hence, conditions both in this country and abroad will have prepared a better terrain for the discussion of the problem.

It would take more than the ten minutes which are allotted to the gentlemen who come on the program under the heading "Discussions" to go more deeply into the examination of my proposition. I shall merely ask you to have in mind that when all has been said and done, the reorganization of Europe, in spite of many admirable and even successful efforts, is still in its first stages. The reparations which have so often been revised, have not as yet taken on a definite form. The Allied world, and more especially London and Rome, begin to realize that German reparations may under certain conditions become a curse in disguise. Walter Rathenau speaking in Munich on September 28, at a meeting of the Association of German Industries, boldly declared: "Complete fulfilment of all the demands made upon us by the Versailles Treaty and the ultimatum, would injure the world's economic system to a far greater extent than it would us." It is not for Germany to say we cannot pay; the world's economic system "will one day utter a *non possumus*, and we in Germany shall live to see that day." And it must be conceded that these words in the mouth of the able member of the cabinet of fulfilment, whose earnest desire to come to some kind of an agreement at Wiesbaden was acknowledged by M. Loucheur, carry a good deal of significance. Rathenau advocated at Wiesbaden that Germany pay in kind, but in his Munich speech he says: "The fact that Germany has to produce goods on this unprecedented scale, and throw them on the world's markets, causes unemployment not to diminish, but to increase." And there is a terrible hint for the rest of

the world in Rathenau's statement that there is no unemployment in Germany. No wonder that there is plenty of work in Germany if, as we read the other day, the Spanish government has a good deal of its printing done in Berlin. In Belgium there is an outcry against German imports. The *Messaggero* claims that the steady rise in German imports threatens to ruin the struggling Italian industries.

But then if Germany is to pay, she must pay with goods. Rathenau may be right when he says that Germany won her great economic position not by wealth, not by her geographical situation, but by organization, discipline, advanced scientific knowledge, and work. Germany instead of paying in gold, which is impossible, may well be in a position to make payment in kind, but the question remains: Can the world afford to accept such payments in kind? I am afraid that the Vergilian line *Timeo Danaos et dona ferentes* could be written across many a reparation clause: "I fear the Germans bearing reparations."

Before leaving this platform, I should like—ladies and gentlemen of the American Economic Association—to express my appreciation for the work you are performing. We men of the business world have our eyes fixed upon the few concrete business propositions which claim our attention. Your gaze, on the contrary, seeks a higher aim: The weal of the community. We see a few trees, you see the forest. You must guide us. You are, if I may use the beautiful old English expression, the keepers of the business man's conscience.

J. T. HOLDSWORTH.—In the brief time I have had to examine Professor Seligman's admirable paper, I find myself in general accord with his analysis of the nation's finances in so far as it has to do with the domestic situation. Surely there will be no dissent from his conclusion as to the effectiveness or the providential availability of an elastic currency and credit system in the most trying period of our existence. Though the federal reserve system has been much lauded in some quarters—and because of the tirades recently directed against it by one of its former ex-officio administrators it has to that extent raised itself above the level of honest criticism—the public at large does not yet adequately appreciate the wonderful achievements of the system during the period of war inflation and no less the period of deflation since the war.

In general, too, assent will be accorded Professor Seligman's contention as to the danger inherent in unrestrained competition among our numerous banks, though there may be a division of opinion as to the wisdom of branch banking, or, at least, as to the unlimited creation of branch banks. It does seem probable, however, that a limited measure of branch banking is inevitable in our American system.

While there may be room for difference of opinion as to the wisdom or intelligence of our war finance policy, Professor Seligman puts his finger upon some of the obvious errors in that policy. The consequences of the government's refusal to pay the market rate of interest on government loans as foreign countries did, and of the overdependence upon taxes on wealth,

with accompanying tax exemption and the iniquitous excess-profits tax, are very logically and interestingly set forth in Professor Seligman's paper.

He is equally happy in his insistence, when discussing the expenditure side of our national balance sheet, upon the need for retrenchment and for a policy which will secure economy while still assuring efficiency. The adoption of a new budget system gives promise of initial control over expenditures that will facilitate national economy, but the promise of this new reform will fail of realization unless there is everywhere throughout the nation a supporting attitude of retrenchment and economy and a vigorous, organized public opinion to fortify every advance thus made in the line of budgetary control.

Coming now to the discussion of the Allied indebtedness I find that I cannot follow so unreservedly his arguments and conclusions. He has little patience with those who consider this a just debt and less, apparently, with those who would seek to defend such payment on economic grounds. In considering the justness of the debt Professor Seligman would explain the almost simultaneous appearance of war profits taxes in every country "on the ground of conviction that it is illicit for an individual to make profits out of the blood and misery of his fellow-countrymen in so fearful a crisis." But it may be questioned whether this was the dominating motive—or, rather, was it that war-profits taxes were resorted to as one of the easiest and most immediately available sources of revenue for the government?

Is it strictly true that "the revolution which converted us from a debtor to a creditor nation. . . . is due to the fact that for two and one-half years we made these enormous profits"? What if we had remained out of the war, "too proud to fight," and still made loans and sold war supplies to the Allies; or what if we had entered the war in 1914, making loans and sales of material to the Allies in even larger amounts? If it is just to cancel the Allied debt should not Liberty bond holders likewise cancel their individual claims upon the government? The fact that our government is better able to pay, though payment of the principal may be longer deferred, to individual bondholders than are the Allied governments to pay our government, surely does not affect the principle here involved.

Again, Professor Seligman says that had we been in the war from the beginning—as we should have been, in which case it would have been shortened by many months and the total war expenditure correspondingly reduced—we should not have had 10 billions of assets to count but ten times 10 billions of the debt as our share of the cost of the war. But this probable bill would be owed largely to our own people. Would we then consider the repudiation of these obligations? Or would repudiation apply only to those holders of the debt who did not don khaki, or who got into the fight late, or who did not get overseas? Waiving the question of whether we "emerged as the real beneficiary of the war," but doubting whether any nation ever can emerge from modern warfare a beneficiary, we inquire how this can affect the justice of the debt?

Turning to the economic aspects of payment of the Allied debt, the ground seems equally debatable. Indeed, Professor Seligman admits that it may not be the part of wisdom to cancel the existing indebtedness. The fact that the Allies cannot now pay in gold and that such payment if available would be disastrous alike to them and to us, does not close the case. The bulk of the debt must be paid largely as all international indebtedness is settled, in goods and services. But it may be urged that the heavy trade balance due us annually from abroad as a consequence of the predominance of our exports over imports will render it impossible to discharge the debt by means of commodity exports.

In view of the unsettled condition of European industry and finance, of the depreciated and fluctuating exchanges, and of the enormously heavy tax burdens, existing or prospective, pressure for prompt payment of either principal or interest at any early date would be most unwise. But eventual payment under a generously elastic funding arrangement is both possible and probable. Despite the unconscionable hesitation and delay of Congress, provision is slowly being evolved to effect such arrangement. Granting the restoration of normal economic activity in Europe, partially relieved as a consequence of the Disarmament Conference of the huge financial burden of preparation for future wars, given a decade of economy and retrenchment, and the Allied governments will be in a position to begin the regular payment of interest and to amortize the principal of their debt to the United States. The burden of settling for past wars will be less irksome than that of earlier days devoted to preparation for future wars, and the disturbance to the international money markets and exchange long since stabilized will be inconsiderable.

In passing it should be noted that much of the contention for cancellation of the foreign debts rests upon the doubtful assumption that the present balance of trade so heavily in favor of the United States will continue. During the past few months the tide of our export trade has ebbed markedly with corresponding rise in imports. There are those who believe that the not distant future will witness a reversal of our international status when imports will exceed exports, when our huge horde of gold now swollen to 45 per cent of the world's total will be required to meet our debtor obligations, and when the heavy investments which, in the very nature of the international situation we will make in foreign countries in the next few years, will have to be made available for the settlement of unfavorable trade balances, as has been the case with England for decades past. It must be said, however, that such an evolution—call it devolution if you will—will be checked, and the whole operation of debt payment be made exceedingly difficult if the apparent purpose of Congress to erect high and yet higher tariff barriers against the trade of our debtors and the rest of the world becomes effective.

Finally, let it be said that in the interest of world peace these war obligations should remain inviolable. If denied, what nation will be able in the event of attack by a stronger foe to obtain financial aid from a non-combatant? Where, for example, would England, attacked fifty years

hence by Russia or China, turn for a loan? Were not the obligations of earlier war loans remitted or cancelled with resulting increase of the tax burden for years upon those who advanced the loans? Who then will buy the bonds of a country which history records as having sought or received cancellation of its obligations? Is the financial integrity of a government less sacred than that of its citizens?

Great Britain has arranged to begin payment of the debt owed to the United States at the rate of 50 million pounds yearly, and Sir Robert Horne, Chancellor of the Exchequer, has recently said: "Our attitude in regard to our debts must be that what we owe we shall always be prepared to pay, and that we shall meet our obligations however hard and difficult the circumstances may be." The continued talk of cancellation of these debts has certainly not enhanced faith in European credits. With the appointment of the commission to arrange for their settlement all such talk should now cease and the debtor nations should act upon the assumption that they will be required to pay. The clearing away of this cloud of uncertainty should go far toward restoring international confidence and improving the international credit situation.

Reverting to the domestic aspects of the problem of national finance, I feel that Professor Seligman is on familiar and firmer ground, where because of his recognized authority it may, perhaps, be presumptuous to follow. He clearly illuminates the shifting of the tax controversy from the merits of direct versus indirect taxes to those of consumption taxes versus taxes upon wealth, or savings, or income.

The war has left no more forbidding trail than that of heavily increased tax burdens which even our children's children must follow. And the trail winds. The complexities of the post-war situation make it difficult to lay out a straight road of taxation upon the basis of fairness and justice. Yet we have the experience of the past to guide and the mistakes of the war period to warn in shaping our course. We shall not soon repeat the egregious blunders of the excess-profits tax, but it does not seem that our legislative engineers have learned anything from past mistakes in the matter of oppressive surtaxes or of the repressive policy of "soaking the rich." Whatever may be said of the expediency or wisdom of taxing excess profits in time of war, a fiscal policy which in times of peace and of post-war business deflation seeks or, by indirection such as arises from the exemption of securities from taxation, accomplishes the paralysis of business enterprise, is nothing short of economic stupidity. That business must continue to carry a very heavy burden of taxation seems assured; that business skill, enterprise, and initiative shall still be subjected to the palsy of the dead hand reflects upon America's reputation for solid common sense. As Professor Seligman points out, excessive taxes upon wealth and industry, and particularly the virus of tax-exemption of increasingly huge masses of securities, will, if continued, destroy that business virility upon which continuous, economical production essential to the resumption of national prosperity so largely depends.

While agreeing with Professor Seligman that dangers lurk in wide-

spread consumption taxes, and that the principle of ability to pay must be preserved as the mainspring of our revenue system, and admitting that a general sales tax violates "the economic and ethical canons of taxation," it may be urged that as a temporary measure a sales tax has much to commend it in the existing fiscal situation. It is probable that an income tax simplified in form, equitable in its incidence, and lighter in its burden upon those of small means, has become a fixture in our revenue system. In order to lighten the tax burden now pressing with undue weight upon wealth and business, it seems necessary and expedient until a more nearly normal order be restored to distribute the burden over a wider group area by resort to a sales tax. With a decreasing national budget the spread of this tax may in time be gradually restricted and eventually replaced by consumption taxes through import duties and excise dues upon the small group of articles familiar before the war.

The solution Professor Seligman proposes of the problem existing in the high rates of surtaxes is feasible and commendable. The tax upon inheritances can be materially increased without injustice to the several states imposing similar taxes, without arousing general opposition, and without stirring up anew the controversy as to whether the inheritance tax should be regarded merely as a capitalized income tax. Not the least commendable feature of the inheritance tax is the comparative simplicity and economy of its administration.

Regarding the taxation of corporations as a means of securing reduction in the income tax, it should be frankly recognized that, with the evolution of our income tax system, the attempt to sustain equivalence between the tax upon corporate and that upon individual income must be abandoned. Recognizing their essential difference, the problem becomes one of devising a fair workable business tax based upon net earnings, applicable to all business enterprises and to all profits, distributed or undistributed.

We return once more and in conclusion to the pressing question of tax exemption of securities. Without attempting a recapitulation of the arguments now generally understood against the exemption of securities from taxation, emphasis should be laid upon the necessity of arousing public opinion to the growing menace in this situation. The tax-free investment affords shelter and peace to the business man and the man of means harassed by the worries, uncertainties and inequities of excessive surtaxes. This combination of evils not only works inequality in the tax burden and reduction of revenue for the government, but more it tends to stifle those qualities of business enterprise and courage which have made American industry great and which if now released and encouraged will make her still greater in business achievement and in her service to the world.

E. L. BOGART.—I am glad to align myself with Professor Seligman and Mr. Rovensky on the subject of the cancellation of our foreign indebtedness. But in taking this stand I should like to emphasize, not the ethical arguments, but the economic ones in favor of such action. And in doing this I should like to present the matter from the point of view of the effect of

payment upon the debtor nations of Europe rather than of the effects upon the United States, especially since these latter have been so forcibly presented by Professor Seligman.

This foreign indebtedness might be paid, in the first place, by the shipment to this country of gold. But the debtor nations have not got the gold to ship, and if they had it, it would be economically unwise of us to demand it of them. The reestablishment of the gold standard by them will be possible only if they not only retain this gold, but also add to their holdings. Such a consummation, with the attendant correction of disordered foreign exchanges, would certainly be to the advantage of the United States, and nothing should be done by us which would prevent an early realization of this end. The world is too much of a piece today for the injury of one part not to hurt the others.

If the debtor nations cannot, or ought not, pay in gold, then they must pay in goods and services. Whether it be true, as Professor Seligman urges, that we do not wish these foreign goods to flood this country, or not, I do not intend to argue. I wish rather to emphasize the point that it is not to our interest to deprive Europe at this time of these goods and services. The United States is vitally interested in the speedy restoration of European industry and economic well-being. Our industries are even now suffering because of the lessened purchasing power of some of our best customers in that part of the world. Our first efforts, as those of the recent belligerents themselves, must be the speedy and complete economic rehabilitation and reconstruction of Europe. On this point Mr. Vanderlip's recent proposal has the merit of going to the very heart of the problem. The labor and capital of Europe can be better applied to repair the ravages of war than to pay their debts to us, and such a procedure will profit not only themselves but us as well. Even if the debtor nations could pay, it would be unwise to insist upon payment. But at present and probably for a long time to come they are and will be unable to pay. What we cannot collect we may therefore forgive.

Though advocating the cancellation of this foreign indebtedness, I should, however, endeavor to make it at the same time an instrument of reform. We might fairly demand, in return for a gradual and progressive cancellation of these debts, that the debtor nations balance their budgets, that they stop the further emission of paper money and that they apply their resources to economic purposes rather than to armament. Cancellation might, therefore, be made a means of obtaining financial stability and economic progress, without the future complications involved in a scheme of postponment such as Dr. Holdsworth suggests.